UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY

AER LINGUS GROUP Plc; AIR PACIFIC; AIR TAHITI NUI; ALL NIPPON AIRWAYS CO., LTD.; ASIANA AIRLINES, INC.; BRITISH AIRWAYS Plc; CATHAY PACIFIC AIRWAYS LTD.; CHINA AIRLINES, LTD.; CHINA EASTERN AIRLINES; COMPAÑÍA MEXICANA de AVIACIÓN, S.A. de C.V.; DEUTSCHE-LUFTHANSA AG; EL AL ISRAEL AIRLINES LTD.; EVA AIRWAYS CORP.; JAPAN AIRLINES INTERNATIONAL COMPANY, LTD.; KOREAN AIR LINES CO., LTD.; LAN AIRLINES S.A.; LAN PERU, S.A.; PHILIPPINE AIRLINES, INC.; QANTAS AIRWAYS LTD.; SINGAPORE AIRLINES LTD.; SWISS INTERNATIONAL AIR LINES LTD.; THAI AIRWAYS INTERNATIONAL PUBLIC CO., LTD.,	:	
Complainants,	:	
v.	:	Docket __________
LOS ANGELES WORLD AIRPORTS, LOS ANGELES BOARD OF AIRPORT COMMISSIONERS, and THE CITY OF LOS ANGELES, CALIFORNIA,	:	
Respondents.	:	

EXPERT REPORT OF DANIEL P. WIKEL AND DR. TIMOTHY J. TARDIFF

I. INTRODUCTION

Daniel P. Wikel

1. My name is Daniel P. Wikel. I am a Managing Director at Huron Consulting Group ("Huron"), where I specialize in the turnaround and restructuring of airline companies as well as companies in other industries. Huron helps clients effectively address complex challenges that arise in litigation, disputes, investigations, regulatory compliance, procurement, financial distress, and other sources of significant conflict or change. Huron also helps clients deliver customer and capital market performance through integrated strategic, operational, and organizational change. Huron provides services to a wide variety of both financially sound and distressed organizations, including Fortune 500 companies, medium-sized businesses, leading academic institutions, healthcare organizations, and the law firms that represent these various organizations. My business address is 550 West Van Buren Street, Suite 800, Chicago, Illinois 60607.

2. I have more than 17 years of business experience including financial advisory services. My operational expertise spans the areas of strategic planning, investment analysis, and operational process and identifying cost improvements. As an advisor, this experience relates to executing engagements in corporate turnarounds, lender workouts, bankruptcy situations, and raising debt and equity for companies. I often offer expert advice on these topics.

3. I have been a financial advisor to a number of companies in various industries including aerospace/airline and transportation, and am the leading Huron financial

advisor in the United Airlines bankruptcy case, which among other activities includes being a participating member of the company's restructuring office. This effort has required deep knowledge of all aspects of the airline's operations, including its airline terminal leases. I have also provided advisory services to other aerospace clients and senior lenders with acquisition advisory, capital raising, due diligence, and operational and financial negotiations/bankruptcy preparations.

4. I hold a MBA from the Kellogg School of Management, Northwestern University and a B.S. in accounting from Marquette University. I have attained my CPA certificate and other turnaround and restructuring credential designations, e.g. CIRA. A copy of my Curriculum Vitae is provided in Attachment 1.

5. I submitted a joint expert report (with Dr. Timothy J. Tardiff) on February 23, 2007, a joint expert report in reply (with Timothy J. Tardiff) on March 5, 2007, and a joint supplemental expert report (with Timothy J. Tardiff) on April 6, 2007 in Docket OST-2007-27331.[1]

Timothy J. Tardiff

6. My name is Timothy J. Tardiff. I am a Managing Director with Huron Consulting Group. My business address is 470 Atlantic Avenue, Boston, MA 02110.

7. I have over 30 years of academic and consulting experience. My areas of expertise have focused on the economics of regulated industries and those industries transitioning to increased competition, including transportation and telecommunications. I have extensive experience in evaluating the theoretical and applied aspect of methodologies used to establish regulated rates. I have filed

[1] *See* Exhibits TBIT-6 , TBIT-7, and TBIT-8.

testimony in over 25 states and before federal regulators in the United States and several other countries on these issues and have published extensively in the economics and industry literature.[2]

8. Before joining Huron at the end of 2006, I had been a Vice President at NERA Economic Consulting for over 20 years. Earlier in my career, I was a faculty member at the University of California, Davis, where I specialized in the transportation industry. I have a Ph.D. in Social Science from the University of California, Davis and a Bachelor of Science in mathematics from the California Institute of Technology. A copy of my Curriculum Vitae is provided in Attachment 2.

9. I submitted a joint expert report (with Daniel P. Wikel) on February 23, 2007, a joint expert report in reply (with Daniel P. Wikel) on March 5, 2007, and a joint supplemental expert report (with Daniel P. Wikel) on April 6, 2007 in Docket OST-2007-27331.[3]

II. OVERVIEW AND SUMMARY

10. On February 28, 2007, LAWA informed the TBIT airlines that their terminal rental payments (base rent and M&O charges) would increase when their leases expired on March 31, 2007. In particular, LAWA has changed the measure of the area occupied by the airlines to rentable square feet from the actual space occupied by the airlines (useable area)—an increase in the square footage used to establish payments on the order of 50 percent—which in turn increases the airlines' payments by about 50 percent relative to their levels had not this change

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[2] One of my articles on these issues was quoted by the Supreme Court in *Verizon Communications, Inc. v. F.C.C.*, 535 U.S. 467 (2002).

[3] *See* Exhibits TBIT-6 , TBIT-7, and TBIT-8.

been implemented.[4] This increase followed on the heels of the retro-active increase in terminal charges of close to $49 million on an annual basis that resulted from LAWA's December 18, 2006 approval of a new methodology for determining M&O charges.

11. In our expert reports in the LAX III proceeding, we explained that that increase was not necessary or reasonable because (1) LAWA was already adequately profitable before the increase; (2) LAWA and LAX has a very strong balance sheet that historically reflects a net asset position and an unrestricted cash of no less than $2.2 billion ($2.6 billion in F/Y 2006) and $ 531 million ($566 million in F/Y 2006) over the past four years, respectively; (3) the TBIT airlines' payments for their use of the terminal already were higher than LAWA's direct costs of providing that space; (4) as a result, LAWA was incorrect in its claim that the airlines had been receiving a cross-subsidy (or cross-credit) from other users, and (5) to the extent that the airlines operating out of Terminals 2 and 4 through 8 ("T2/4-8") are successful in their legal challenge to the new M&O methodology, the new M&O charges are discriminatory because the TBIT airlines would experience cost increases that these competitors on their international routes would not.

12. Because the terminal charges at issue in this proceeding only exacerbate an already unnecessary and unreasonable rate increase, and again with no increase in

[4] While LAWA's action that is the subject of the current complaint did not entail the complex methodological changes that underlay the first complaint, LAWA's implementation of the second round of rate increases has not been without its own problems. In particular, LAWA had to reduce the base rents assessed on TBIT airlines by $6 million, due to its assignment of erroneous debt service amounts to TBIT for FY 2007 when it originally determined base rents. In addition, the fair market value rents, which now form the basis for base rents, are apparently based on a "draft appraisal" which has not been presented to the TBIT airlines, let alone been subject to evaluation.

LAWA's costs of providing terminal space to the airlines, all of the impacts we previously identified are likewise magnified. First, we estimate that LAWA's already adequate profits levels would increase by about $71 million in FY 2007.[5] This increase in profits would also increase the pledgeable revenues at LAX to a level almost eight times the debt service projected for FY 2007. The pledgeable revenues were almost five times debt service levels without the rate increases—a level well above the 1.25 coverage ratio LAWA states is necessary to maintain a strong credit rating. That is, LAWA already had a considerable margin to fund future capital improvements.

13. The change from usable to rentable space will increase the TBIT airlines' base rent payments to $16.1 million (from $9.8 million for 2006). That level is $11.4 million higher than the costs LAWA incurs to provide the space occupied by the airlines. The airlines total payments for terminal space (base rent and M&O) will be approximately $70 million—an amount that almost equals LAWA's costs for the entire terminal. Accordingly, the payments that LAWA continues to receive from concessionaires, which heretofore (along with payments from the airlines) had covered the shared costs of the terminal, essentially will be 100 percent profit (margin). The $70 million in airline payments is substantially higher than the $27 million of direct costs LAWA incurs in providing and maintaining the airlines' terminal space. Indeed, had the two rate increases at issue in the two proceedings not been implemented, the TBIT airlines would have exceeded direct costs by a healthy margin—demonstrating that there was no cross subsidy that needed to be eliminated by rate increases.

[5] The estimated full-year effect of the rate increases is about $109 million.

14. Finally, the rate increases at issue here will increase the discriminatory effect we previously identified. During 2007, the TBIT airlines will experience a $28 million rate increase that their competitors in T2 and T4-8 will not have to pay. Over the period 2007-2021 (a time during which the long-term leases are expected to be in effect), we estimate that the TBIT airlines will face rate increases that total $860 million—increases that again their competitors in the other terminals will not experience if they are successful in their legal action.[6] Indeed, even if they are successful, the TBIT airlines increased payments due to the shift to rentable space are estimated to be $576 million through 2021, which represents a differential cost increase because the T2/T4-8 carrier would still be charged for their space on a useable basis.

III. BECAUSE LAX IS PROFITABLE, LAWA HAS NOT JUSTIFIED WHY ADDITIONAL LARGE INCREASES IN AIRLINE TERMINAL RENTAL PAYMENTS ARE NECESSARY AND PROPER

15. In our expert report in LAX III, we described the financial health of LAWA as revealed in its FY 2002-2006 financial reports. Based on this and other analyses, we concluded that the increase in revenues that has resulted from LAWA's increase in terminal M&O charges is not necessary for funding the capital improvements it has yet to adequately describe, but would only increase its profitability and strengthen its already "*extremely strong financial position, illustrated by low debt levels and healthy cash balances.*"[7] In particular, the retro-

[6] As a result of the rate increases, TBIT airlines average rental rates per square foot for base rent and M&O are on the order of quadruple the corresponding average payments in the next highest terminals.
[7] Exhibit TBIT-17 (July 25, 2006 Press Release).

active increase in M&O charges increases LAWA's income for FY 2006 by $24.45 million.[8]

16. We also noted that LAWA is expected to remain profitable in FY 2007.[9] Further, because (1) the approved increase in M&O rates attributable to the new methodology will be in effect for the full FY 2007, and (2) LAWA has approved a change from usable to rental space when calculating base and M&O charges for TBIT as well as Terminals 1 and 3 ("T1/T3), the resulting increase in revenues and profits for FY 2007 is considerably larger—approximately $71.15 million.

17. LAWA imposed new charges on the TBIT (and other) airlines through a number of decisions that occurred at different times during FY 2007 (i.e., July 1, 2006 through June 30, 2007), and thus affected different groups of airlines for certain parts of the fiscal year. First, the change to the methodology for determining M&O charges was approved in December 2006, but was retroactive to January 1 of that year. Accordingly, the part of the increase that occurred during the last half of calendar year 2006 increases revenues during first half of FY 2007 (i.e., July 1 through December 31, 2006). And that increase continues during the second half of FY 2007 (January 1 through June 30, 2007), albeit at a higher level due to an apparent increase in LAWA's M&O costs. Second, LAWA changed the way in which terminal rents—both the basic charge for space and the M&O charge (which had already been increased as a result in the change in methodology)—is calculated for the T1/T3 carriers, effective February 1, 2007. Up until then, the per square foot rates for both basic rent and M&O charges had

[8] This amount is one-half of the calendar year 2006 amount of $48.9 million.
[9] Exhibit TBIT-6, ¶ 24.

been applied to the space that the airlines actually occupy (i.e., their useable space). LAWA's new approach applies the unit rates to a larger measure of space (rentable space) that allocates to the airlines the public space that benefits both airlines and other terminal uses, i.e., concessions.[10] LAWA subsequently increased the terminal rents for the TBIT airlines in the same way, with an effective date of April 1, 2007 (when their leases had expired).

18. The following table provides details on the components of this increase:

Estimated FY 2007 Revenue Increase from Change in M&O and Space Rent Calculations

Change in Terminal Rent Calculation	**Increase (millions)**
July 1, 2006 - December 31, 2006 M&O	$24.44
January 1, 2007 - June 30, 2007 M&O	$30.78
T1/T3: Rentable - Feb - June 2007	$10.00
TBIT: Rentable - April - June 2007	$5.93
Total	$71.15

As this table demonstrates:

- The annual $48.9 million increase in M&O charges due to the new methodology[11] for calendar year 2006 results in a $24.44 million increase for the last half of that year: July 1, 2006 – December 31, 2006.
- The effect of the M&O methodology change continues from January 1 to June 30, 2007, but at a higher level because of an apparent 26 percent increase in LAWA's costs.[12] Accordingly, we estimate this

[10] This change allocates on the order of 50 percent more space to TBIT airlines when determining rental payments. For example, if an airline had 10,000 feet of useable space and the basic rental rate were $20 per square foot per year, up until LAWA's change it would have paid $200,000 annually. With the change from useable to rentable, that airline would be assigned about 30,000 square feet when determining base rent payments, which would increase its annual outlay by 50 percent to $300,000.
[11] Exhibit TBIT-6, ¶ 17.
[12] For the terminal cost center, total M&O costs increased from $187.9 million for 2006 (Exhibit TBIT-14 at p.15) to $236.6 million for 2007. In addition to "terminal regular expense" being larger than 2006 M&O costs, LAWA has added two new categories: "terminal special expenses" and "airport infrastructure charges." These expenses are reported in Exhibit TBIT-39 (TBIT-63 from LAX III).

revenue increase as 1/2 of the annual increase described above, increased by 26 percent—$30.78 million.

- We previously estimated the annual impact of the change from usable to rentable for T1/T3, net of the change in the M&O methodology, to be $24.5 million.[13] Because of an error in the debt service amount used to determine terminal capital charges, LAWA subsequently reduced its estimate of the revenue impact by about $0.5 million,[14] resulting in an annual impact of $24.0 million. This translates into a revenue increase of $10 million over the five month period from February 1, 2007 through June 30, 2007.
- LAWA approved the change from useable to rentable space for TBIT, effective April 1. The incremental revenue increase from this action is $5.9 million.[15]
- The full-year revenue increase of LAWA's approved changes would be $109.29 million. In particular, the six-month increases (January 2007 to June 2007) attributable to the change in the M&O methodology would apply for a full year. The five-month incremental increase for the T1/T3 airlines as well as the three-month (April 2007 to June 2007) increase for the TBIT airlines would apply for a full year.[16]

19. Because there are no cost increases associated with these rate increases, LAX's FY 2007 profitability would increase by the same $74.2 million over projected levels. In particular, as the following table shows:

- LAX's projected operating income for FY 2007 of about $4 million would increase to about $75 million.
- Income before depreciation and amortization would grow from about $74 million to about $145 million.[17]
- Pledgeable revenues would increase from $108 million to over $180 million.
- The coverage ratio (pledgeable revenues divided by debt service expenses) would increase from an already healthy 4.81 to an extremely high 7.97. These ratios, in turn, indicate that LAWA has the capacity to increase its annual debt service at LAX from $22.61 million to

[13] Exhibit TBIT-6 at Attachment E.8, row 2 + row 3 – row 10.
[14] Exhibit TBIT-16 at Item 15, at p. 4.
[15] Exhibit TBIT-8 Attachment C: (basic rentable + M&O new: rentable – basic usable – M&O new: usable)/4.
[16] 10.00 x 12/5 + 4 x 5.93 + 2 x 30.78 = 109.28
[17] As the table indicates, we assumes that depreciation and amortization remains consistent year after year.

$86.7 million without the additional revenues, and to $143.6 million if the additional revenues are realized.

Estimated FY 2007 LAX Financials (Millions)

	Budget	With Incremental Revenue
Operating Income	$3.75	$74.90
Depreciation	$70.24	
Operating Income: before Depreciation	$73.98	$145.13
Interest Income	$34.39	
Pledgeable revenues	$108.37	$179.52
Debt Service	$22.52	$22.52
Coverage Ratio	4.81	7.97
Target Debt Service	$86.70	$143.62

Notes:
Operating Income: Exhibit TBIT 28
Depreciation: FY 2006 Depreciation adjusted by the 2002-2006 average annual growth
Interest Income: FY 2006 Interest income adjusted by the 2002-2006 average annual growth
Debt Service: FY 2006 Fiancial Report minus Ontario debt service

20. As we explained in our expert report for the first complaint, not only is LAWA and LAX profitable from a Profit and Loss perspective, but over the years, it has accumulated significant cash reserves as reflected in its net asset and unrestricted and restricted cash and pooled investments, and has a very strong balance sheet in terms of financial stability. In particular, LAWA has accumulated close to $3.4 billion in assets and a net asset base (i.e., assets, less liability obligations) of over $2.6 billion.[18] Even more telling is the fact that LAWA has increased its net asset position, year after year, for the past five years at a rate between 5.6 and 7.4 percent, most recently 7.0 percent between 2005 and 2006. Moreover, LAWA has consistently achieved a current ratio[19] of more than 2 for each of the past five years and has accumulated unrestricted cash reserves of $566 million. These are

[18] Exhibit TBIT-20.
[19] The current ratio is defined as the current assets divided by the current liabilities.

all indications that LAWA is accumulating significant cash reserves and surplus, and is financially healthy.

IV. TBIT BASE RENT CHARGES EXCEED COST

21. In our LAX III Supplemental Expert Report, we determined the amount by which fair market value base rent exceeds the underlying capital costs. In particular, we compared the base rent paid by airlines from January 1, 2006 through March 31, 2007 with an estimate of the debt service and amortization costs over the same period and concluded that the TBIT airlines' payments exceeded LAWA's costs by a range of $4.8 million to $6.5 million based on an extrapolation of the only debt service information for TBIT that was provided by LAWA (i.e., for FY 2007).[20]

22. The increase resulting from the change from usable to rentable space will increase the amount of overpayments considerably, as shown in the following table.[21]

	TBIT Annual	Airline Share	Airline Annual
Proposed Airline Space Rent Payments: Usable			$16,141,658
FY 2007 Debt Service Costs	$6,731,294	56.66%	$3,813,841
FY 2007 Amortization Costs	$1,572,035	56.66%	$890,689
FY 2007 Total Capital Cost	$8,303,329		$4,704,531
Overpayment			$11,437,127

In particular,

- The debt service and amortization costs for FY2007 of $8.3 million for TBIT and the prorated amount of $4.6 million for proportion of that space used by the TBIT airlines will apply for a full year and for the next several years as well.[22]

[20] We provided a range because LAWA declined to provide the requested information for FY 2006.
[21] The airlines' share of terminal space increased slightly between 2006 and 2007.
[22] LAWA's and LAX's debt service amounts are projected to be essentially flat through 2011. Thus, year-to-year changes in terminal capital costs would be the result of fluctuations in the relatively minor amortization expenses.

- LAWA has increased base rents for TBIT airlines from $9.8 million annually to $16.1 million. These payments exceed capital costs by over $11.4 million annually.

23. In calculating the capital costs, we excluded LAWA's 25 percent debt coverage cushion. As we explained in our LAX III Supplemental Report, LAWA's ratio of pledgeable revenues to debt service has been well in excess of the 25 percent margin Mr. Pan indicates is needed to maintain a strong credit rating. In addition, Mr. Pan testified that with respect to at least the 2003B bonds, which account for most of the outstanding TBIT debt, no debt service coverage is required because the reserves that were set aside when the bonds were issued have been maintained.[23] Because LAWA's financial reports project lower levels of debt service for FY 2007 and beyond,[24] the ratio will be even higher, even without the extra revenue LAWA intends to raise from changing to rentable space. Thus, the coverage cushion is not a cost imposed by the airlines, but instead is simply a mechanism to adding to LAWA's already strong cash position.[25]

24. In particular, charging the debt coverage cushion of 25 percent each and every year (as LAWA's calculations provide) results in the recovery of considerably more than the cost of the facilities over their lifetime in service. This outcome is illustrated by the following example. Suppose LAWA were to fund $100 million

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[23] ExhibitTBIT-55 at 3002-3003 (Pan).

[24] While Mr. Pan has asserted that LAWA will assume higher levels of debt to finance its capital improvements, it has not done so yet and as a result, its financial reports reflect expected debt service on existing bonds.

[25] Indeed, Mr. Pan acknowledged that LAWA has sufficient pledgeable revenues to meet their debt service covenant, i.e., there is no need to collect additional revenues to ensure that the 1.25 coverage ratio is satisfied. Exhibit TBIT-55 at 3021-3022 (Pan). Similarly, the Official Statement (at p. 23) for the 1995D bonds (which provided funds for capital improvements and which were subsequently refinanced through the 2003B bonds) describes how LAWA would be permitted to issue additional bonds if pledgeable revenue were at least 125 percent of a debt service amount that included the debt service attributable to the new bonds. This ability to incur more debt is based on the very same rationale we used when determining the amount of additional debt and debt service LAWA could accommodate, given its current high coverage ratio.

over a 20-year period with revenue bonds with a 5 percent annual interest rate and also charge a 25 percent debt coverage cushion. The following table describes the payments and cash accumulation over that period. The extra payment is added to cash reserves, which in turn provides interest income. This income increases as cash accumulates to the point that it approaches and then exceeds to amount that LAWA states that it requires to maintain its credit rating. In other words, in the real-world situation in which investments tend to be made periodically, the cash reserves would reach a level at which point they would supply the pledgeable revenues necessary to maintain the coverage ratio.[26]

Year	Debt service Revenue	Cushion	Cash	Interest Income	Pledgeable Revenues
1	$8,024,259	$2,006,065	$2,006,065		$10,030,323
2	$8,024,259	$2,006,065	$4,012,129	$100,303	$10,130,627
3	$8,024,259	$2,006,065	$6,118,497	$200,606	$10,230,930
4	$8,024,259	$2,006,065	$8,325,168	$305,925	$10,336,248
5	$8,024,259	$2,006,065	$10,637,158	$416,258	$10,446,582
6	$8,024,259	$2,006,065	$13,059,481	$531,858	$10,562,181
7	$8,024,259	$2,006,065	$15,597,404	$652,974	$10,683,297
8	$8,024,259	$2,006,065	$18,256,442	$779,870	$10,810,194
9	$8,024,259	$2,006,065	$21,042,377	$912,822	$10,943,146
10	$8,024,259	$2,006,065	$23,961,264	$1,052,119	$11,082,442
11	$8,024,259	$2,006,065	$27,019,448	$1,198,063	$11,228,387
12	$8,024,259	$2,006,065	$30,223,575	$1,350,972	$11,381,296
13	$8,024,259	$2,006,065	$33,580,613	$1,511,179	$11,541,502
14	$8,024,259	$2,006,065	$37,097,856	$1,679,031	$11,709,354
15	$8,024,259	$2,006,065	$40,782,951	$1,854,893	$11,885,216
16	$8,024,259	$2,006,065	$44,643,909	$2,039,148	$12,069,471
17	$8,024,259	$2,006,065	$48,689,121	$2,232,195	$12,262,519
18	$8,024,259	$2,006,065	$52,927,381	$2,434,456	$12,464,779
19	$8,024,259	$2,006,065	$57,367,902	$2,646,369	$12,676,692
20	$8,024,259	$2,006,065	$62,020,336	$2,868,395	$12,898,718

[26] This example does not even account for the fact that LAWA has other sources of pledgeable revenues (such as concessions revenues) in addition to rates based on debt service recovery and interest income.

V. AIRLINE TERMINAL RENTS HAVE NOT BEEN AND WILL NOT BE SUBSIDIZED BY CONCESSION REVENUES

25. The economic determination of whether particular services (in this case the terminal rents charged to the TBIT airlines) are subsidized depends on the answer to the following question: do the revenues realized from the rate in question exceed the *additional* costs that the service imposes? Costs that would not change if more or less of the service in question were used—which typically include the types of indirect costs that LAWA's methodology allocates to terminals and within terminal—are not considered in this determination. In the present context, because the terminal rents in place before the rate increase at issue in this proceeding covered the direct costs necessary to provide terminal space to the airlines and contributed to recovery of the costs shared with other users inside the terminal and throughout the airport, there was no subsidy from an economic perspective. That is, the fully allocated costs that LAWA asserts are the "true costs" that airline rental rates heretofore have not been recovering[27] do not provide an economically valid basis for determining whether a service is being subsidized, nor do they describe the relationships between prices and costs that competitive markets produce. The amounts by which particular products or services contribute to the recovery of the costs shared among several services are the outcome of the competitive process, not some arbitrary allocation formula.

26. From the point of view of airline customers, the trip that originates (or terminates) at the airport terminal and the purchases made from the concessions at the

[27] Exhibit TBIT-11, ¶ 34.

terminal are complementary.[28] Since the ultimate source of the profits LAWA realizes from whatever terminal rates it charges are the consumers' purchases of airline travel and the concessions sold at the terminal, such rates would comport with those generally expected in competitive markets as long as (1) the total costs of operating the terminal were recovered, and (2) the terminal operator earned a normal profit under this arrangement. Considerations such as whether particular uses recover a "fair share" of indirect costs or whether one service is providing a "cross-credit" to the other simply do not come into play.[29]

27. Formulaic mark-ups over direct costs (e.g., based on the proportion of total space occupied by particular types of users) are not only unnecessary to prevent cross subsidies, but they also generally reduce the benefits customers enjoy in using the terminals as well. LAX's terminals exist to serve the traveling public;[30] consequently, concessionaires find their terminal space valuable because of the captive audience so assembled. Accordingly, *within the constraint of earning only reasonable overall profits*, LAWA's objective of "optimizing airport

[28] Two products are complements when a reduction in the price of one of them increases the demand for the other.

[29] Indeed, with complementary goods or services, prices can even be below cost in certain situations (which is not the case for airline terminal rents at LAX, because they recover direct costs). For example, a shopping mall may not charge customers for parking, even though there is a direct cost associated with it. The reason for that is that such an arrangement increases the demand for goods sold at the mall sufficiently so that the parking cost can be recovered in the rents charged to the mall tenants.

[30] In characterizing the LAX concession environment, LAWA appropriately lists the 60 million annual passengers as the first characteristic. Exhibit TBIT-22. (LAWA's witnesses also acknowledged the fact that these assembled passengers are the ultimate source of revenues. *See, e.g.*, Exhibit TBIT-55 at 3133 (Cushine); Exhibit TBIT-56 at 3256 (Eaton). In order to preserve this environment, the space assigned to airlines and the rents charged for that space must be such that the passenger traffic that makes terminal locations attractive to concessionaires is maintained. In particular, LAWA's assertion that airline rents should be increased to the "opportunity cost" determined by what concessionaires pay for space carries with it the risk that the increases imposed on airlines would reduce the traffic that makes the space so valuable to concessionaires in the first place.

revenues"[31] and "improving revenue flow"[32] makes perfect economic and business sense. And the process of obtaining such optimal revenues from concessionaires will result in non-uniform recovery of the shared costs of the terminal.[33]

28. LAWA's witnesses provided a description of how this process works and why it makes sense for the airport, the airlines, and travelers. Because of the value of the assembled passengers, LAWA optimizes revenue by assigning concession space to the highest bidder.[34] In so doing, these optimal revenues allow the airport to realize reasonable profits, while at the same time lowering airlines charges relative to what they otherwise would have to be. Recovering the shared costs, in particular public spaces, in this manner makes sense because public space benefits all users.[35]

29. Such optimized charges to concessions are not discriminatory (because the airlines and concessionaires are providers of complementary services and not similarly situated competitors), and ultimately benefits customers. With complementary goods (air travel and shopping in the present instance), it is common for price sensitivity to vary among customers. By recovering its costs from retail sales instead of airline sales, LAWA helps to optimize the passenger

[31] Exhibit TBIT-22.
[32] Exhibit TBIT-22.
[33] The indirect costs that are assigned to TBIT and the other terminals include the general and administrative costs of the airport as a whole. Because concessionaires and their customers both within and outside of terminals (e.g., rental cars) benefit from the assemblage of passengers that the airport provides, there is no rationale for assigning the lion's share of the recovery of such costs to the airlines on the basis of their occupancy of most of the useable space in a terminal.
[34] Exhibit TBIT-55 at 3129 (Cushine).
[35] Exhibit TBIT-55 at 3159 (Cushine).

volumes as well, since increasing costs to the airlines may flow through to higher ticket prices that could lead to reductions in traffic volume.

30. In our LAX III Reply Expert Report, we disclosed how the revenues generated by LAWA from TBIT airlines prior to the change in the methodology for determining M&O rents were already covering the direct costs they imposed when occupying their space (including security costs) and would contribute even more under the new methodology.[36] We update that analysis as follows:

- The total M&O cost for TBIT is increased by 38 percent to reflect the apparent increase in LAWA's costs for 2007. TBIT's direct costs are increased by 34 percent.[37]
- Base rent payments are increased to reflect the increase in fair market value rents LAWA has assigned to TBIT.[38]
- In our LAX III Reply Report, because we did not yet have information on LAWA's terminal capital costs, we assumed that costs and rental payments were the same. In our update, we use the terminal capital costs explained in the previous sections, i.e., the margin between base rents and their associated costs provides for recovery of some of the shared costs of TBIT.

31. The following table shows the results (in millions).

[36] Since LAWA was profitable under the previous rates, concession revenues were recovering the remainder of the shared costs. Accordingly, increases to airlines' rents (with no offsetting reductions in other revenues) results in excess profits for LAWA.

[37] Exhibit TBIT-28.

[38] In particular, if the $16.1 million in base rents LAWA charges to the airlines for 2007 (Exhibit TBIT-39) were reduced by the ratio of usable to rentable space, those charges would be $10.7 million, compared to the $9.8 million in base rents paid by the airlines in 2006. Some of the increase is attributable to more useable space assigned to the airlines.

	Terminal	Airlines	Public
Direct: space	$5.51	$4.70	
Direct: M&O	$25.78	$22.03	
Total Direct	$31.29	$26.74	
Shared Common Space			
Space	$2.80		
Direct M&O	$13.10		
Indirect M&O	$23.41		
Total	$70.60		
Rent: New M&O Methodology/Rentable		$69.91	
Rent: New M&O Methodology		$46.36	
Rent: Old Methodology		$36.07	
Usable Space	936,070	530,362	315,410
Rentable/Useable	1.5082		

32. The TBIT airlines impose direct costs of about $26.7 million annually. Had LAWA not imposed any changes in how it determines space and M&O rents, they would have paid $36.1 million in rental fees, thus contributing over $9 million to the recovery of shared costs. The imposition of the new M&O methodology, increases payments by an additional $10 million, thus providing that much more revenue to purportedly cover shared costs that had already been covered by concession revenues. The change to rentable space would result in airline payments that virtually cover *all* of the costs of the TBIT terminal, i.e., almost all of the concession revenues would reflect a 100 percent profit (margin). In particular, total rent payments by the TBIT airlines would be $69.9 million, compared to the total costs of $70.6 million for the entire terminal.

VI. THE CHANGE IN METHODOLOGY WILL RESULT IN TERMINAL RENTAL CHARGES THAT DISCRIMINATE AGAINST THE TBIT AIRLINES

33. Attachment 3 reports that the combination of the new M&O methodology and the change to rentable space would increase the TBIT airlines' costs by $28 million in 2007 and by $189 million over the five-years from 2007-2011. In contrast, airlines operating under long-term leases would not be subject to this increase in the event they are successful in challenging LAWA's attempt to impose those increases on them. Under these circumstances, the TBIT airlines would face increases not experienced by the T2/4-8 airlines. Consequently, when the TBIT airlines compete against airlines with long-term leases on routes connecting to LAX, the former would face an artificial cost disadvantage that would be similar in effect to a tax or fee that was imposed differentially.[39]

34. In particular, airlines with long-term leases both compete for passengers on the TBIT carriers' international routes—for example, the TBIT airlines compete with United and Delta for direct flights to Tokyo's Narita airport, with United Airlines on flights to Mexico City, and with American and United on flights to

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[39] The effect on the relative attractiveness of the TBIT carriers' offers to customers would be similar to a hypothetical situation in which they were subject to higher PFC than their competition. Telling, when questioned about why the TBIT airlines were concerned about LAWA's difficulty in establishing the payments each would face under the new M&O methodology, Mr. Pan cogently described the importance of such charges:

> Q. (Mr. Weiss) Now, Mr. Pan, before when I asked you about, you know, whether the airlines had reason to question the allocations you stated back that your allocations, your overall allocations were okay, right?
> A. That's correct.
> Q. Now, put yourself in the position of Lufthansa Airlines. Do you think they care about your total allocations or do you think they care about your allocations?
> A. I think they would care about both.
> Q. Do you think they are most concerned about what they would pay?
> A. I think they are concerned about what they are paying *and they are also concerned about what others are paying relative to what they are paying*. Tr. at 2800 (emphasis added).

London[40]—and are similarly situated (apart from the historic accident that they do not currently hold long-term leases).[41] The record in LAX III clearly established the fundamental similarity among the TBIT carriers and their LAX competitors. In particular, Ms. Tubert acknowledged that (1) LAWA did not consider the fact that long-term leaseholders may have invested in their terminals when determining M&O costs,[42] (2) that LAWA intends to offer the same terminal rental rates to new entrants as it does to established carriers,[43] and (3) it does not cost less to serve the long-term leaseholders.[44]

35. If the T2/T4-8 airlines can successfully challenge the imposition of the new methodology to determine their terminal rental charges, the discriminatory situation would be long-lasting, because the long-term leases last until 2021 or longer. Accordingly, the economic impact would accumulate and loom much larger over the period in which the long-term leases remained in effect. For example, we estimate that through 2021, the cumulative impact of the change in M&O charges would be about $859 million.[45] The enduring nature of the differential M&O assessment has consequences similar to a situation in which the TBIT airlines were artificially forced to make a non-productive investment that their competitors managed to avoid. Seen in this light, the annual M&O charges

[40] *See generally* Declaration of Eve McEneaney (April 30, 2007) et al. ("McEaneaney Decl.")
[41] Exhibit TBIT-56 at 3399-3400 (Tubert).
[42] Exhibit TBIT-56 at 3328 (Tubert).
[43] Exhibit TBIT-56. at 3385 (Tubert).
[44] Exhibit TBIT-56 at 3396-97 (Tubert).
[45] *See* Attachment 3. This calculation assumes that recent inflation rates persist throughout the period in question.

are equivalent to being saddled with a useless capital addition of over $314 million.[46]

36. These discriminatory cost increases can be stated as increases in the per-square foot rental charge and alternatively on the basis of the increased cost per enplaned passenger. The following table lists these increases.

Discriminatory Increase Imposed on TBIT airlines

	Increase in First Year Total Payments	Cost/passenger Increase	Cost/square foot Increase
Change in M&O Methodology and to Rentable Space	$27,915,905	$2.88	$52.64

The combined effect of the methodology change and the change from usable to rentable space would increase the cost per enplaned passenger by $2.88 and the cost per usable square foot by almost $53.[47]

37. From an economic perspective, the imposition of costs on some competitors, but not others, distorts the competitive process. When an input to providing a service is essential—in this case, space at LAX to serve passengers in this metropolitan area[48]—differential charges for that input have the same effect as charging different amounts of taxes to similarly-situated providers. The proposition that such discriminatory charges should not be imposed on essential inputs is the well-known principle of competitive parity that has been a mainstay in both the theory

[46] This example assumes a discount rate of 13 percent.
[47] Because the TBIT terminal rental rate would be about $68/square foot if LAWA's changes had not been approved, these changes increase terminal rent payments by about 77 percent in 2007. Had they been in effect for the full year, terminal rents would have increased by $63.74 per square feet, or by 94 percent. We note that the costs per square foot described here are somewhat lower than what we report later, because the area assigned to the TBIT airlines increased somewhat in 2007. In our comparisons with other terminals that we describe later, the rates are based on 2006 space allocations because we do not have the 2007 assignments for the other terminals.
[48] *See generally* McEneaney Decl., ¶ 9.

and practice of regulated rates for essential inputs.[49] From an economist view, the fundamental idea is that when prices for essential inputs are comparable across competitors,[50] all competitors are free to compete on the merits and thereby attract patronage by offering better service and product innovations at attractive prices. Instead, discriminatory prices run the risk of handicapping otherwise equally or more efficient airlines, which would in turn have the effect of undermining the process that leads to innovations and service offerings that ultimately provide the greatest benefits to the traveling public. Administrative convenience in imposing charges on some airlines, but not on others—regardless of the merits of the intended expenditures of the extra funds so obtained—provides no basis for undermining the fundamental role that non-discrimination and the principle of

[49] William E. Baumol and J. Gregory Sidak, "The Pricing of Inputs Sold to Competitors," Yale Journal on Regulation, Volume 11, No. 1, 1994, pp. 171-224**.** Alfred E. Kahn and William E. Taylor, "The Pricing of Inputs Sold to Competitors: A Comment," Yale Journal on Regulation, Volume 11, No. 1, 1994, pp. 225-240. Kahn and Taylor (at p. 227) explain:

> We have in various forums expounded what we have referred to as the principles of competitive parity…the purpose of which are to ensure that competition…is efficient. That is to say, rules formulated in accordance with those principles should produce a distribution of responsibility for performing the contested function on the basis of their respective costs so as to minimize so as to minimize the cost of supplying the contested service.

Kahn and Taylor go on to observe that one of the requirements for competitive parity is that there be no discrimination among rivals requiring access to the essential input. The authors note in a footnote that although the quoted statement is framed in terms of minimizing cost, they more generally define efficiency as giving customers the best combination of service quality and cost. Further, while the competitive parity principles are generally articulated for situations where the supplier of the essential input also competes against other rivals that must rely on that input, e.g., one railroad requires access to the tracks of another in order to offer service between two points, the fundamental economics are the same: discrimination amongst rivals using the essential input harms competition in the downstream market to which that input is supplied.

[50] The validity of this principle does not depend on the level of the charges, i.e., whether they are generally above cost, at cost, or below cost. Consequently, it is essentially just as inimical to the competitive process to charge one group of competitors' cost-based rates, while at the same time other competitors are charged lower rates as it is to charge some competitors cost-based rates, while others are forced to pay more than cost.

competitive parity play in the theory and practice of sound rate-making and regulatory economics.

38. Although a simple comparison of rates charged to different airlines by itself does not establish whether they discriminate for or against particular airlines (if there are differences in the cost of providing terminal space, then rates that reflect these costs are not discriminatory), it is nonetheless informative to observe such differences. The following table provides the following estimates of the total cost per square feet (base rent plus M&O) for TBIT and the T2/4-8 airlines: (1) 2007 rates that would have applies if LAWA had not changed the M&O methodology and not imposed the rentable space measure on TBIT, (2) the rates derived from imposing the new methodology on all carriers, and (3) the TBIT airlines' rate after imposing the rentable space measure.[51]

Effect of Terminal Rent Changes: 2007 $/sq-ft

	TBIT	T2	T4	T5	T6	T7	T8
Old Methodology	$70.52	$15.32	$19.05	$26.34	$35.21	$26.28	$34.33
New M&O Methodology	$90.82	$36.34	$47.16	$44.76	$55.99	$48.13	$74.60
Rentable	$136.97						

39. While TBIT carriers would have paid more on a square foot basis than the long-term carriers in other terminals had LAWA not changed its approach to determining terminal rents, the combination of the new M&O methodology (if the other carrier are successful in their legal action) and the shift to rentable space for TBIT substantially widens the gap. In particular, if the long-term carriers succeed in remaining under the old M&O methodology, TBIT airlines' space charges

[51] These estimates start with the 2006 total airline rent per square foot from LAX-009-0009. We increase the space rent component of each terminal by 4.4 percent—the increase from $19.35 to $20.18 per square foot that LAWA has imposed on TBIT. We increase the 2006 M&O rates by the increase in M&O expenses that apply to each terminal. Significantly, while TBIT's M&O costs increased 38 percent because of LAWA's cost increases and the addition of new cost items, the costs for the long-term carriers increased by only 17.5 percent.

would average at least four times higher than the averages in those other terminals.[52] Even if LAWA succeeds in imposing the new methodology on all terminals, TBIT airlines would pay terminal rents that average almost 85 percent higher than the average rates in the next most costly terminal (Terminal 8).

[52] Under the old methodology, the highest rates for space and M&O charges would be about $35 per square foot (Terminals 6 and 8), which is barely one-quarter of the $136.97 average for TBIT.

Declared under penalty of perjury this 30th day of April, 2007.

Daniel P. Wikel

Declared under penalty of perjury, this 30th day of April, 2007.

Timothy J. Tardiff

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Dan is a Managing Director in the Corporate Advisory Services practice at Huron Consulting Group and has more than 17 years of business experience. Prior to joining Huron, he was a Director in Arthur Andersen's Corporate Restructuring practice. Prior to joining the restructuring consulting groups, Dan was involved in the Zenith Electronic Corporate turnaround and bankruptcy as the Director of Planning and Analysis. He also held various financial positions with the Tenneco Inc. organization and began his career with KPMG, LLP in the audit practice.

Professional experience
Dan's operational expertise spans the areas of strategic planning, investment analysis, and operational process and identifying cost improvements. As an advisor, his experience relates to executing engagements in corporate turnarounds, lender workouts, bankruptcy situations, and raising debt & equity for companies. He often offers expert advice on these topics. Dan has written a number of articles for the turnaround industry.

Dan has been a financial advisor to a number of companies in various industries including:

- Aerospace / Airline
- Transportation
- Retail
- Consumer products
- General manufacturing
- Technology
- Distribution and packaging

He has a strong general knowledge of the U.S. Bankruptcy process through extensive work with many companies near or in bankruptcy. In addition to the representative debtors engagements listed below, he has also provided lending type services.

- Dan was Huron's leading financial advisor in the United Airlines bankruptcy case working closely with the company's investment bankers and attorneys. In addition to assisting on bankruptcy preparations, first-day orders, and DIP financing, he manages several aspects of the bankruptcy process on a day-to-day basis and is a participating member of the company's restructuring office. He has also provided advisory services to other aerospace clients and senior lenders with acquisition advisory, capital raise, due diligence, and operational & financial negotiations / bankruptcy preparations.

- In the airline industry, Dan has provided consulting services to or worked with constituents involved with Air Jamaica, Hawaiian Air, Delta Air Lines, Comair, and Atlas Air Lines.

- Dan provided lender advisory services to the agent bank and syndicate lenders of a $1.5 billion technology provider company. He worked closely with the large and diverse lender group along with the company to negotiate several credit facility amendments and eventual pre-petition bankruptcy filing for a $700 million multi-creditor facility.

- He led a $190 million Wisconsin-based manufacturing company and its Board of Directors through the bankruptcy proceeding and filing process, stabilized the business operations, and structured and executed an exit plan. In addition to securing DIP financing, and developing reliable company information for the bankruptcy constituents, he assisted in the sale of nine under-performing or non-core divisions. It resulted in full recovery to the secured lenders, plus interest, a 93-cent recovery to the unsecured creditors, and allowed the equity to maintain a portion of operations.

- Dan provided re-financing services and analytical divestiture analysis to a $2 billion Missouri-based van line and relocation company. He assisted management in developing a business plan suitable for a credit facility amendment for the lender group and advised management during lender meetings and negotiations. He also provided analytical divestiture analysis to unprofitable and capital-intensive relocation businesses and assisted the company in the downsizing of the operations, preliminary negotiations with buyers, due diligence, and the sale of the business segment. This resulted in the mitigating additional losses and reducing the capital requirements by more than $30 million and enabled the company to favorably refinance its credit facility.

Education and certification

- Master of Business Administration, emphasis in Finance, Marketing & Organizational Behavior, Kellogg Graduate School of Management, Northwestern University
- Bachelor of Science, Accounting with an academic scholarship, Marquette University
- Certified Public Accountant (CPA)
- Certified Insolvency and Restructuring Advisor (CIRA)

Professional associations and accomplishments

- Turnaround Management Association (TMA)
    - Cornerstone 15 Council Member
    - Continuing Education Committee
- Managing partner of a number of property investments held in separate limited liability companies:
    - BMR Enterprises, DNW, LLC, and MSR, LLC
- Illinois CPA Society

- Association of Insolvency and Restructuring Advisors (AIRA)
- Selected by *Turnaround & Workouts* Magazine as one of the "People to Watch in 2006"

Civic involvement

- Board member of the American Cancer Society
    - Member of the Executive Committee
- Chicago District Golf Association

Recent Articles, Speaking engagements and Expert experience

Deposition: Paul Harris Stores, Inc. et al., Plantiffs vs. PriceWaterhouseCoopers LLP, Defendant, No. 1:02-CV-1014-LJM-VSS, the deposition of Daniel Wikel on January 24, 2006

Expert report: Azerty Inc. ("Azerty"), a subsidiary of United Stationers, Inc. vs. U.S. Office Products Company Liquidating LLC ("USOP") Preference Analysis report, No.03-50627 Bankr D. Del.

Expert Report: United Stationers, Inc. vs. U.S. Office Products Company Liquidating LLC ("USOP") Preference Analysis Report

Sarbanes-Oxley Act of 2002: Section 401 (a) and the SEC Disclosure Rules for Managements Discussion & Analysis about Off-Balance Sheet Arrangements and Aggregate Contractual Liabilities Obligations & Commitments, *Daniel P. Wikel,* Huron Consulting Group LLC; Chicago and *Contributions by: Gavin Toepke,* Huron Consulting Group LLC; Chicago, ABI Journal, July/August 2003

Up in the Air: Is the Airline Industry A Lending Crisis or Opportunity
By Daniel Wikel, Managing Director, Brent Johnson, Director, and Anu Singh, Director, Huron Consulting Group; ABF Journal 2005

Dan has also led and spoken on several airline industry and turnaround related panels / presentations, list available upon requested.

Attachment 3

Annual Increases to TBIT Rental Rates

Year	M&O Old	M&O New	Basic: Usable	Basic: Rentable	M&O New: Rentable	Impact of change in M&O methodology	Impact of change from usable to rentable space	Additional Impact of Change to Rentable
2006	$18,363,965	$25,766,653	$9,776,893	$14,745,510	$38,861,266.05	$7,402,688		
2007	$25,410,807	$35,654,143	$10,712,297	$16,156,286	$53,773,578.59	$10,243,336	**$27,915,905**	**$17,672,568**
2008	$27,418,260	$38,470,820	$11,033,665	$16,640,974	$58,021,691.30	$11,052,560	$36,210,740	$25,158,180
2009	$29,584,303	$41,510,015	$11,364,675	$17,140,203	$62,605,404.91	$11,925,712	$38,796,630	$26,870,918
2010	$31,921,463	$44,789,306	$11,705,616	$17,654,409	$67,551,231.90	$12,867,844	$41,578,563	$28,710,719
2011	$34,443,258	$48,327,662	$12,056,784	$18,184,042	$72,887,779.22	$13,884,403	$44,571,779	$30,687,375
2012	$37,164,276	$52,145,547	$12,418,488	$18,729,563	$78,645,913.77	$14,981,271	$47,792,713	$32,811,442
2013	$40,100,254	$56,265,045	$12,791,042	$19,291,450	$84,858,940.96	$16,164,792	$51,259,095	$35,094,304
2014	$43,268,174	$60,709,984	$13,174,774	$19,870,193	$91,562,797.30	$17,441,810	$54,990,044	$37,548,234
2015	$46,686,359	$65,506,072	$13,570,017	$20,466,299	$98,796,258.28	$18,819,713	$59,006,181	$40,186,468
2016	$50,374,582	$70,681,052	$13,977,117	$21,080,288	$106,601,162.69	$20,306,470	$63,329,752	$43,023,282
2017	$54,354,174	$76,264,855	$14,396,431	$21,712,697	$115,022,654.54	$21,910,682	$67,984,747	$46,074,065
2018	$58,648,153	$82,289,779	$14,828,324	$22,364,078	$124,109,444.25	$23,641,625	$72,997,045	$49,355,420
2019	$63,281,357	$88,790,671	$15,273,173	$23,035,000	$133,914,090.35	$25,509,314	$78,394,560	$52,885,246
2020	$68,280,585	$95,805,134	$15,731,369	$23,726,050	$144,493,303.48	$27,524,550	$84,207,400	$56,682,851
2021	$73,674,751	$103,373,740	$16,203,310	$24,437,832	$155,908,274.46	$29,698,989	$90,468,046	$60,769,057
Total						**$283,375,759**	**$859,503,199**	**$576,127,440**
Present Value						**$107,787,078**	**$313,619,831**	**$205,832,753**
Five Year Impact (2007-2011)						**$59,973,856**	**$189,073,616**	**$129,099,761**

Rentable to usable space	1.51
M&O annual increase	7.90%
Base rent annual increase	3.00%
% of 2007 for which change to rentable space applies	75%
Discount rate	13%

Notes:

1. *2006 M&O charges with the new methodology and the basic rent changes: LAX III, LAX-009-0009*
2. *2006 M&O changes, old methodology: LAIA Terminal Rate Calculation at LAX III, Attachment E.13 to the Joint Complaint.*
3. *2007 M&O charges equal corresponding 2006 changes, scaled by the ratio of 2007 TBIT M&O Costs (Corrected Exhibit A.1, LAX III, TBIT-63) to 2006 TBIT M&O Costs (LAX IIII, LAX-009-0009)*
4. *2007 Basic: Rentable - The airlines' original 2007 base rent of $22,069,890 (LAX III, Exhibit TBIT-63) is scaled by $18,889,893/$25,827,450, the ratio of TBIT corrected base rent (Corrected Exhibit A.1, LAX III, TBIT-63) to TBIT original base rent (Original Exhibit A.1, LAX III, TBIT-64).*
5. *2007 Basic: Usable is calculated as [2007 Basic: Rentable] / [Rentable-to-usable ratio].*
6. *LAX III, Expert Report of Daniel M. Kasper (Feb. 16, 2007) at Appendix D: M&O rates are assumed to increase 7.9% per year.*
7. *Id.: base rates are assumed to increase 3.0% per year.*
8. *Rentable space is 1.51 times as large as usable space: LAX III, LAX-071-0006.*
9. *2007 Impact of change to rentable space assumes the new rate goes into effect on April 1.*